Budget 2010 11

MAINTAINING CONTROL OVER OUR CHOICES

BUDGET AT A GLANCE

Québec

1. In the short term

SOLIDIFYING RECOVERY

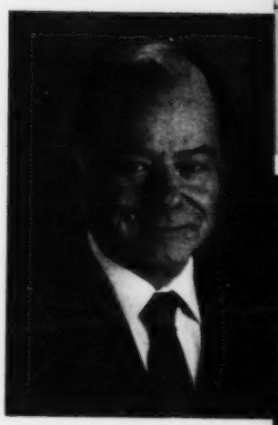
2. In the medium term

BALANCING PUBLIC FINANCES TO PROTECT OUR VALUES

3. In the longer term

LIBERATING THE AMBITIONS OF QUEBECERS

CHOICES FOR THE FUTURE



I have the honour of tabling my first budget before Quebecers. This budget lays the groundwork for the future, while enabling us to meet our immediate challenges.

This budget has a proclivity for the common good of Quebecers—those of today as well as tomorrow. Our decisions today will condition the options that will be available 20 years from now to the roughly 90 000 Quebecers who will be born this year. Our duty of solidarity extends to those children and the hundreds of thousands of others who will follow them.

We want to pass on to them a Québec in which personal enrichment, in every sense of the word, is possible; a Québec concerned with using its collective wealth judiciously, efficiently and equitably; a Québec whose citizens, through solidarity with one another and a sense of responsibility, do not sign away wealth that has not yet been created. In short, a determined but compassionate Québec; an ambitious Québec that has the courage of its ambitions.

This budget is in the image of Quebecers: ambitious and realistic. It addresses five pressing issues for our society: balancing public finances, renewal of our collective facilities, funding for our universities, the performance and funding of our health-care system and reducing our public debt. It responds not only to short-term needs but to challenges in the medium term and offers a vision for the long term.

This budget implies responsibility, is based on equity and calls for solidarity.

First, responsibility: above all, that of the government, which will spare neither rigour nor effort in managing our resources; that of businesses, which will do their part while continuing to create the wealth necessary for the fulfilment of the ambitions we all have; and that of Quebecers, who will assume their fair share of the public services they receive.

Next, equity: between all Quebecers, regardless of where they live or the generation to which they belong—or will belong.

And lastly, solidarity: it requires that we each contribute, within our means, to the well-being of Québec and the preparation of our common future.

This budget fosters the emergence of a prosperous, creative and green Québec. Today, we are making choices for the future.

Minister of Finance,

Raymond Bachand

RAYMOND BACHAND
MNA for Outremont

1. In the short term

SOLIDIFYING RECOVERY

CONTINUATION OF THE RECOVERY PLAN

$15 billion injected into the economy in 2009 and 2010

In 2009, the government contributed directly to the economy's good performance through the injection of $6.8 billion. This has translated into tangible benefits:

- The Employment Pact has helped train more than 19 500 people or integrate them into jobs.
- The program to support enterprises that risk being affected by economic slowdown has enabled 27 000 workers to keep their jobs.
- The Renfort program has provided approximately 575 enterprises with a total of nearly $750 million in funding.

To solidify the recovery, the Québec government is pursuing the measures already taken. It is deploying the second half of the recovery plan by committing the $8.2 billion slated for 2010. We are continuing:

- the Employment Pact Plus;
- the Renfort program for business financing;
- the Québec Infrastructures Plan.

TARGETED INITIATIVES

The government is enhancing the recovery plan through initiatives targeting the regions and the sectors hardest hit by the recession.

- $30 million over two years for the implementation of the Plan Emploi Métropole.
- $50.5 million in 2010-2011 to provide support specifically to the forest industry.

JOB CREATION SINCE JULY HAS ALREADY OFFSET NEARLY THREE QUARTERS OF THE JOB LOSSES BETWEEN OCTOBER 2008 AND JULY 2009.

THE ECONOMIC RECOVERY IS WELL UNDERWAY

Economic activity has picked up in Québec since the third quarter of 2009.

- After dropping by 1.4% in 2009, real GDP is expected to rise by 2.3% in 2010.
- The economic recovery should be accompanied by the creation of 38 700 jobs in 2010 and 41 600 jobs in 2011.

Despite the recent global recession, Québec's unemployment rate is lower today than it was in 2003.

Furthermore, Québec has weathered the recession better than its main trading partners.

- In 2009, output and employment declined less in Québec than in Ontario, Canada and the United States.

ECONOMIC GROWTH IN QUÉBEC

(real GDP, percentage change)

MODERN, HIGH-QUALITY INFRASTRUCTURE

QUÉBEC INFRASTRUCTURES PLAN

Under the 2009-2014 Québec Infrastructures Plan, the government will invest $42.6 billion over five years.

- $28.5 billion will be used to maintain the road network, repair bridges and viaducts, keep health and social services institutions in good repair and renovate hundreds of schools.
- $14.1 billion will be used to build roads, add beds in hospitals and classrooms in schools, and build social housing.

In 2010-2011, public infrastructure investments will total $9.1 billion.

This is $4.1 billion more than in 2007.

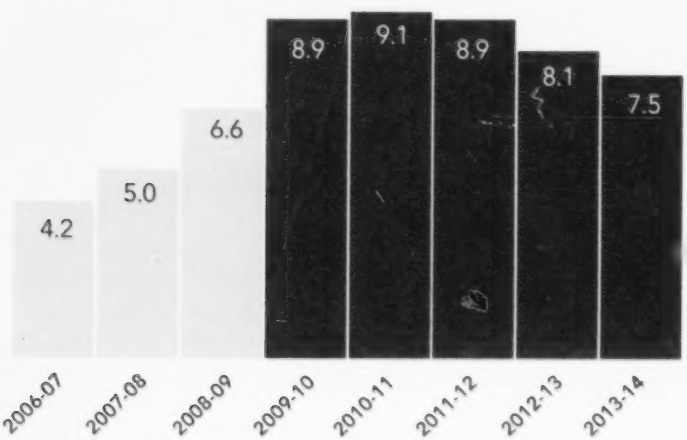
This acceleration of infrastructure investment has been undertaken in order to:

- upgrade public infrastructure;
- support the economy during the recession.

Taken together, the public infrastructure program and the Hydro-Québec investment program will total about $14 billion in each of the years 2010 and 2011.

CHANGE IN INFRASTRUCTURE INVESTMENT

(contribution from the Québec government, billions of dollars)



EXTENSIVE SPORTS INFRASTRUCTURE

The Sports and Physical Activity Development Fund will be allocated additional funding of $209 million, which will help to:

- finance half the costs incurred by the municipalities or organizations that own Québec's 400 arenas in order to modify or replace their refrigeration systems that use freon, an environmentally harmful gas;
- create the Institut national du sport du Québec, which will provide athletes with support comparable to the best practices in the world.

BETTER FUNDING FOR OUR INFRASTRUCTURE

The road and public transit infrastructure fund will be created and funded by revenue from the fuel tax and from driver's licence and vehicle registration fees.

The fuel tax will be raised by 1 cent per litre as of April 1 and by 1 cent per litre a year for the next three years.

These revenues will be allocated in full to developing public transit and upgrading roads.

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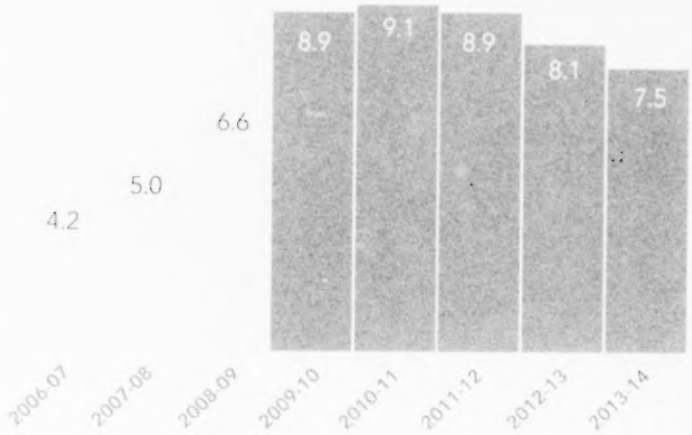

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2. In the medium term

BALANCING PUBLIC FINANCES TO PROTECT OUR VALUES

The recession has left a substantial gap between the government's revenue and expenditure. The government is pursuing the gradual implementation of the plan to restore fiscal balance in 2013-2014. We must act now because:

- deficits increase Québec's already high debt;
- the demographic situation is exerting additional pressure due to the anticipated decrease in the size of the labour pool age 15 to 64 in 2014.

Returning to balanced budgets will require a collective effort. Above all, the government, public bodies and government corporations will make the most effort by tightening their spending. Businesses and Quebecers will also have to do their part.

RETURNING TO BALANCED BUDGETS

The deficits for 2009-2010 and 2010-2011 will be lower than forecast in the fall 2009 update.

- This update forecast deficits of $4.7 billion for each of these years.
- The deficits are being revised to $4.3 billion for 2009-2010 and $4.5 billion for 2010-2011. These deficits take into account a contingency reserve of $300 million for each of these years.

In March 2009, the government announced a plan to restore fiscal balance, with a precise timetable. The 2010-2011 Budget is pursuing the process already initiated and maintaining the goal of balancing the books in 2013-2014.

Without this plan to restore fiscal balance, the deficit would be $12.3 billion in 2013-2014.

- The 2009-2010 Budget already identified initiatives totalling $6.3 billion to return to balanced budgets.
- This budget contains new measures totalling $4.9 billion.
- Therefore, the balance to be eliminated will be $1.1 billion.

A gradual approach will be taken to put public finances in order:

- 62% of the effort will be assumed by the government, wich will play a predominant role by tightening its spending ($6.9 billion);
- 38% of the effort will fall to individuals and businesses ($4.3 billion).
    - The measures being put in place to return to balanced budgets will come into effect gradually and have only a minor impact on Quebecers' disposable income in 2010.

With the 2010-2011 Budget, over 90% of the actions to be taken to balance the books have already been identified.

PLAN TO RETURN TO BUDGET BALANCE

EFFORTS TO ELIMINATE THE DEFICIT BY 2013-2014

BREAKDOWN OF THE EFFORT IDENTIFIED TO ACHIEVE BUDGET BALANCE

(millions of dollars and per cent)

	GOVERNMENTRIGHT				TAXPAYERS			
	Fight tax evasion	Public bodies	Expenditure and organizations[1]	Subtotal	Individuals[2]	Business and others	Subtotal	**Total**
Total effort	1 200	530	5 204	**6 934**	3 481	796	**4 277**	**11 211**
- Breakdown of the effort (%)	10.7	4.8	46.4	**61.9**	31.0	7.1	**38.1**	**100.0**

1 Excluding the additionnal contribution of the fund for financing health-care institutions
2 Including the health contribution

COLLECTING ALL GOVERNMENT REVENUES

Efforts to fight tax evasion and avoidance will be stepped up:

- Revenu Québec will become the Agence du revenu du Québec on April 1, 2011.
  - The Agence will be a stand-alone, accountable entity.
  - Resources will be granted to it on a cost-benefit basis.
- $30 million will be invested to combat unreported work in the construction industry, economic and financial crime and the illicit tobacco trade.

In this way, we expect to recover an additional $300 million in 2013-2014. With the $900-million objective announced in the 2009-2010 Budget, the tax recovery target will be raised to $1.2 billion in 2013-2014.

FIGHT AGAINST AGGRESSIVE TAX PLANNING SCHEMES.

INCREASE IN THE MAXIMUM PRISON SENTENCE FOR A SERIOUS TAX OFFENCE FROM 2 YEARS TO 5 YEARS LESS A DAY.

MAJOR EFFORT ON THE PART OF THE GOVERNMENT TO RETURN TO BALANCED BUDGETS: TIGHTENING SPENDING

To return to balanced budgets in 2013-2014, the government had originally planned to limit spending growth to 3.2% until the books were balanced. The government will further reduce spending.

- Implementation of a program spending control plan through which program spending growth will be reduced to 2.8% as of 2011-2012, until budgetary balance has been restored.
- As well, introduction, as of 2010-2011, of a new health contribution to adequately fund institutions in the health network.
- This measure will both increase funding for health-care institutions and reduce program spending growth to 2.9% in 2010-2011 and 2.2% thereafter.

This will represent an additional effort of $6.6 billion in 2013-2014.

Additional effort on the part of commercial and financial government corporations: contributions of $530 million, through increased productivity and restrictions on spending.

SIGNIFICANT STEPS TO ACHIEVE SPENDING REDUCTION TARGETS

A two-year pay freeze for the premier, ministers and MNAs

A payroll freeze for the civil service until 2013-2014

Gradual 10% decrease in administrative operating expenses by 2013-2014

Reduction of 25% in advertising, training and travel costs

Suspension of the payment of incentive bonuses for senior officers of the public sector for the next two years. Comparable effort required of senior officers of commercial government corporations

Reiteration of the pay proposal submitted to unions in order to renew their collective agreements

Continued replacement of one out of every two employees who retire and extension of this measure to administrative staff in the health and education networks, including management personnel

Review of all government programs

End to the automatic renewal of programs when they come to an end

Self-funding of new initiatives

Amalgamation or elimination of some 30 organizations

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IMPROVING THE PERFORMANCE AND ENSURING THE FUNDING OF HEALTH-CARE SERVICES

THE GOVERNMENT IS IMPLEMENTING EFFECTIVE, LASTING SOLUTIONS TO ENSURE THE SUSTAINABILITY OF OUR HEALTH-CARE SYSTEM.

First of all, steps will be taken to improve the system's efficiency and productivity.

New sources of funding will be reserved for health care to maintain annual growth in overall health-care spending at 5%. This growth rate will ensure quality health services as well as maintenance of the government's other essential missions.

Health contribution:

- Gradual implementation of a general health contribution. It will amount to $25 in 2010, $100 in 2011 and $200 in 2012.

The additional revenues from these new funding sources will be deposited in a fund for financing health care and will be allocated to the institutions on the basis of their productivity and results. The health contribution will stimulate efficiency.

Lastly, health accounts will be published by the Minister of Health and Social Services each fall to improve information and transparency in the health-care system. They will lead to more enlightened decision-making concerning ways to maintain an adequate level of funding.

INCREASING OUR REVENUES TO ENSURE FUNDING FOR PUBLIC SERVICES

The QST will be raised by an additional 1 percentage point on January 1, 2012.

- The QST will thus be 9.5% as of that date.
- The impact of this increase will be reduced substantially for the most disadvantaged households by the new solidarity tax credit. New home buyers will also be protected.

The compensatory tax on financial institutions will also be increased until March 31, 2014, raising the government's revenue by $471 million.

The mining duties regime will be revised, providing the government with $240 million in additional revenue by 2013-2014.

- Quebecers will receive a fairer share of the benefits of mineral resource development.

The policy for the funding of public services will continue to be implemented, as announced in the 2009-2010 Budget.

MAINTAINING OUR SOCIAL SAFETY NET

SOLIDARITY TAX CREDIT

AS OF 2011, THE NEW SOLIDARITY TAX CREDIT WILL REPLACE THE QST CREDIT, THE PROPERTY TAX REFUND AND THE TAX CREDIT FOR INDIVIDUALS LIVING IN A NORTHERN VILLAGE.

The solidarity tax credit will be paid monthly as of July 2011.

The solidarity tax credit will largely offset the impact of tax increases on the purchasing power of less affluent households.

The maximum amount for a couple with two children will be $1 375 in 2012, while the maximum amount of the current tax credits is $958 in 2010.

The solidarity tax credit will increase support to $1.4 billion, i.e. $510 million more than the three current tax credits provide.

ADDITIONAL SUPPORT FOR SENIORS

The tax credit for home support is being enhanced through relaxation of the rules regarding eligibility for certain services.

In addition, $4 million per year in 2010-2011 and 2011-2012 will be available to fund projects promoting respect for seniors and active aging.

PLAN TO COMBAT POVERTY

Another plan to combat poverty will be implemented. It covers the period from 2010-2011 to 2014-2015 and provides for an additional investment of $1.3 billion.

The plan provides for the construction of 3 000 additional social housing units, bringing the number of units pledged since 2003 to 30 000.

In addition, 340 social housing units will be built in Northern Québec.

3. In the longer term

LIBERATING THE AMBITIONS OF QUEBECERS

Québec will face major demographic changes over the next 15 years:

- The population age 65 or over will increase.
- As of 2014, the year budgetary balance is to be restored, the labour pool age 15 to 64 will decline.

These changes will have a significant impact on the economy and public finances.

MEETING THE DEMOGRAPHIC CHALLENGE

Action must be taken to meet the demographic challenge. There are two levers available to us.

DEMOGRAPHICS

The government has taken several initiatives with respect to families and immigration since 2003 in order to spur population growth.

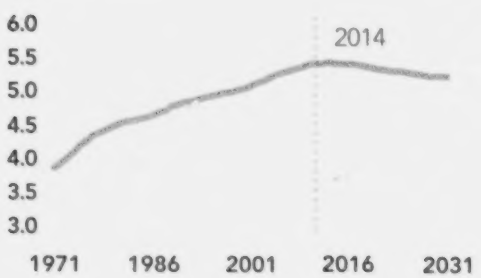
EMPLOYMENT

To maintain our economic potential, we have to change our relationship with work.

Québec must generate the necessary conditions to enable all those who wish to continue playing an active role in the economy to do so.

- The Commission nationale sur la participation au marché du travail will be created. It will define the avenues that will enable Québec to maximize the quality and size of its labour force.

POPULATION AGE 15 TO 64
(millions of persons)



LEVERS TO IMPROVE OUR PERFORMANCE

To create the conditions for sustainable prosperity, we must have the resources needed to do things better. Now is the time to pull the levers that will boost productivity. The government is taking action on three fronts:

EDUCATION

Training and teaching are of prime importance for supporting Québec's development.

- Increase in university tuition fees as of 2012.
  - Organization of a meeting with education partners to establish the terms of the increase and discuss the performance and funding of the university network.
- $75 million to provide for a better match between vocational and technical training and the needs of the labour market.

INNOVATION

It is important to create an economy based on creativity and innovation.

- Updating and extension of the Québec Research and Innovation Strategy, in which will be invested $1.1 billion over the next three years.
  - Start-up of three mobilizing technology demonstration projects in the aeronautics, electric vehicles and forest sectors.

BUSINESS ENVIRONMENT

Exporting SMEs: budget of $50 million granted to Investissement Québec over three years to invest in Québec SMEs that wish to export.

Entrepreneurship: creation of the Fonds d'investissements pour la relève agricole, a $75-million fund set up in cooperation with the Fonds de solidarité FTQ and Capital régional et coopératif Desjardins, of which $25 million will be provided by the government through La Financière agricole du Québec.

MONTRÉAL, AN ESSENTIAL COMPONENT OF BALANCED DEVELOPMENT

Achieving sustainable prosperity for Québec requires a strong national capital, strong regions and a strong metropolis.

Strengthening the economy of the metropolis is essential to Québec's vitality.

- $175 million to support the economic development of the city of Montréal.
- Introduction of a fuel tax increase –up to 1.5 cents per litre– to fund public transit, if the metropolitan communities of Montréal and Québec so request.
- Support for the development and promotion of Montréal's financial sector.
- Establishment of a rail link between the airport and downtown Montréal.

Québec's development also requires a strong capital city.

- $35 million to build on the vitality of the national capital, whose economy remained strong despite the recession.

BUILDING A GREEN ECONOMY

Sustainable development will be an important thrust of the economy for the next 20 years.

REDUCING GREENHOUSE GAS (GHG) EMISSIONS

In November 2009, the government announced Québec's GHG emissions reduction objective for 2020: 20% below 1990 levels.

- Industrial policy for the development of an electric vehicle sector.
- $24 million over three years to encourage the commercialization of products that have obtained carbon footprint certification.

SUSTAINABLE AND RESPONSIBLE MANAGEMENT OF OUR RESOURCES

For there to be a shift to a green economy, the government must promote new resource management models.

- $57 million over three years to continue the deployment of the Northern Plan.
- Introduction of a water royalty to sensitize users to the value of this resource.
- Temporary assistance to help fund wind-power projects that must be completed between 2010 and 2012.

A DYNAMIC CULTURE

There is more to Québec's development than just economic issues. Culture is the reflection of its values.

- $9 million over three years to provide continued support for artists on the world stage.
- Initial contribution of $10 million to the Société de développement des entreprises culturelles to enable it to develop and increase its loan and loan guarantee activities for cultural businesses.
- Creation of a fund by Loto-Québec to support the Orchestre symphonique de Montréal.

  The amounts that the government paid to the OSM will be redirected to, in particular:

  - the Orchestre métropolitain du Grand Montréal;
  - Québec's symphony and chamber orchestras;
  - the Internationale d'opéra de Québec;
  - the Opéra de Montréal.
- Renovation of the Wilder Building located in the Quartier des spectacles in Montréal. It will house cultural organizations, as well as offices of the Ministère de la Culture, des Communications et de la Condition féminine.

PROMOTING INTERGENERATIONAL EQUITY BY REDUCING THE DEBT

The government is determined to reduce Québec's indebtedness so as to ensure greater intergenerational equity.

The government is revising the debt reduction objectives set when the Generations Fund was created.

- The ratio of the debt representing accumulated deficits to GDP should be 17% in 2026, compared with 35.4% as at March 31, 2010. This represents a reduction of 50%.
- A new reduction objective is also being set for the government's gross debt. The gross debt/GDP ratio should be 45% in 2026, compared with 53.2% as at March 31, 2010.

To achieve these new debt reduction objectives, the price of electricity from Hydro-Québec's heritage pool will be raised gradually, as of 2014, until the increase reaches 1¢/kWh in 2018. This rise will result in an average increase of 3.7% a year in electricity rates for almost all Hydro-Québec customers.

Businesses will absorb half the impact of the increase.

The impact of the increase on less affluent households will be offset by the solidarity tax credit.

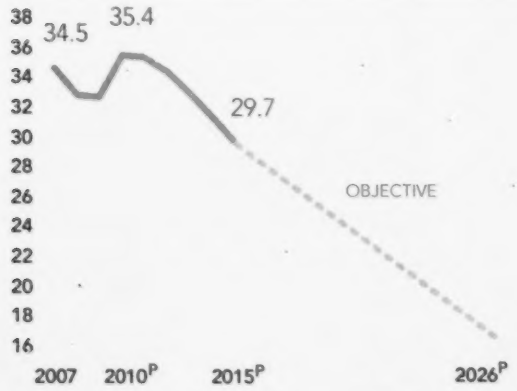
- The parameters of the credit will be adjusted later to take the increase in electricity rates into account.

Ultimately, this increase in the price of heritage pool electricity will provide the government with additional revenues of $1.6 billion annually.

- These revenues will be deposited in the Generations Fund and will be used to pay down the debt. This will help to reduce the burden we leave to future generations.

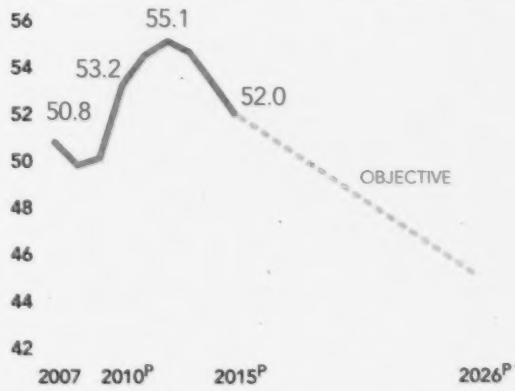
The government is also asking Hydro-Québec to raise its energy efficiency objective in order to reduce the cost of post-heritage electricity for consumers.

DEBT REPRESENTING ACCUMULATED DEFICITS
(as a percentage of GDP)



P Preliminary results for 2010, forecasts for 2011 to 2015 and projections for subsequent years.

GROSS DEBT
(as a percentage of GDP)



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